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STATE OF CONNECTICUT  
DEPARTMENT OF REVENUE SERVICES

**SN 2002(10)**

**SPECIAL NOTICE**

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**Bonus Depreciation for  
Connecticut Corporation Business Tax Purposes**

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**Purpose:** This Special Notice advises corporations of recent legislation that disallows the special federal 30% bonus depreciation deduction that is provided for in Internal Revenue Code (I.R.C.) §168(k) for purposes of calculating the Connecticut corporation business tax.

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**Effective Date:** This publication is applicable to property placed in service after September 10, 2001, and before September 11, 2004, that is subject to the special federal 30% bonus depreciation allowed under I.R.C. §168(k).

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**Statutory Authority:** Conn. Gen. Stat. §12-217(b), as amended by 2002 Conn. Pub. Acts 1, §56 (May 9 Spec. Sess.) and 2002 Conn. Pub. Acts 4, §§2 and 4 (May 9 Spec. Sess.).

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**Bonus Depreciation:** The federal Job Creation and Worker Assistance Act of 2002 allows a special federal 30% bonus depreciation (bonus depreciation) in the first year for qualifying property purchased after September 10, 2001, and before September 11, 2004, for purposes of computing federal net income. The bonus depreciation, in I.R.C. §168(k), allows taxpayers to claim an additional first-year bonus depreciation allowance on new Modified Accelerated Cost Recovery System (MACRS) property where the recovery period is 20 years or less. The additional depreciation allowance is equal to 30% of the adjusted basis of the property (after any I.R.C. §179 expense deductions are taken). The regular MACRS depreciation is calculated after reducing the adjusted basis of the new property by the additional first-year allowance.

**Will Corporations That Are Subject to the  
Connecticut Corporation Business Tax Be  
Eligible to Claim the Bonus Depreciation?**

No. The Connecticut General Assembly amended Conn. Gen. Stat. §12-217(b) to provide that, in determining net income for purposes of the Connecticut corporation business tax, the deduction allowed for depreciation in I.R.C. §168(k) shall not apply. (*See 2002 Conn. Pub. Acts 1, §56 (May 9 Spec. Sess.)*) As a result of this amendment to Conn. Gen. Stat. §12-217(b), corporations subject to the Connecticut corporation business tax will not be able to claim the bonus depreciation.

Also note that if the bonus depreciation is claimed, there is a difference between MACRS depreciation allowed for federal purposes and MACRS depreciation allowed for Connecticut corporation business tax purposes. If a corporation claims the bonus depreciation for federal purposes, the regular MACRS depreciation is calculated after reducing the adjusted basis of the new property by the additional first year allowance. Since this allowance is not permitted for purposes of the Connecticut corporation business tax, the corporation will use a different basis to calculate MACRS depreciation for state and federal purposes.

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**What Are the Consequences of Not Being Able  
to Claim the Bonus Depreciation for Purposes  
of the Connecticut Corporation Business Tax?**

The consequences of not being able to claim the bonus depreciation are that certain modifications must be made for purposes of calculating the Connecticut corporation business tax. The modifications that the corporation must make are:

- Add back the amount of the bonus depreciation to the amount of federal net income (loss) reported for Connecticut corporation business tax purposes in the year the bonus depreciation is claimed; **and**
- Subtract the difference between the amount of MACRS depreciation that is allowed for Connecticut corporation business tax purposes and the amount that is allowed for federal tax purposes in the initial year the bonus depreciation is claimed and in each subsequent year in which the property is depreciated.

Thus, the corporation must calculate MACRS depreciation twice – first reflecting the bonus depreciation and second reflecting the MACRS depreciation without the bonus depreciation. A corporation that claims the bonus depreciation must keep a separate depreciation schedule for purposes of the Connecticut corporation business tax.

**Example:** A corporation purchases a piece of equipment for \$100,000. Assume that the equipment is MACRS 5-year property, that the half-year convention applies, and that no amount is expensed under I.R.C. §179. For federal tax purposes, the corporation claims the bonus depreciation under I.R.C. §168(k) in the amount of \$30,000 (\$100,000 x 30%). It then reduces its basis in the equipment to \$70,000 and uses that reduced basis to calculate its federal MACRS depreciation of \$14,000, (\$70,000 x 20%) for a total deduction of \$44,000 in the first year.

For Connecticut corporation business tax purposes, the corporation must:

- Add back the \$30,000 bonus depreciation;
- Calculate the first-year MACRS depreciation allowed for Connecticut purposes, using its Connecticut basis of \$100,000. This results in a Connecticut MACRS depreciation deduction in the amount of \$20,000 (\$100,000 x 20%);
- Calculate the difference (\$6,000) between the Connecticut MACRS depreciation (\$20,000) and the federal MACRS depreciation (\$14,000) (\$20,000 - \$14,000 = \$6,000); **and**
- Subtract the difference (\$6,000) from the corporation's federal net income (loss).

**Note:** In subsequent years, the corporation will subtract from federal net income (loss) the difference between the Connecticut MACRS depreciation and the federal MACRS depreciation, until the property is fully depreciated. Ultimately, if the property is held until it is fully depreciated, the taxpayer will be able to claim the same amount of depreciation for Connecticut corporation business tax purposes and federal tax purposes.

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**What if the Corporation Has Already Filed its 2000 or 2001 Connecticut Corporation Business Tax Return Deducting the Bonus Depreciation?** If a corporation has filed its 2000 or 2001 **Form CT-1120**, *Corporation Business Tax Return*, and deducted the federal bonus depreciation, the corporation must:

- File **Form CT-1120X**, *Amended Corporation Business Tax Return*, to adjust its net income. The appropriate adjustment to net income should be made on **Form CT-1120X**, *Schedule A*, Line 1. An explanation of the adjustment to gross income should be provided on **Form CT-1120X**; **and**
- Attach to **Form CT-1120X** a copy of federal Form 4562, as filed with the IRS, with the words “as filed with IRS” written at the top of the form. Also attach a detailed schedule of those assets for which the I.R.C. §168(k) bonus depreciation was claimed. For each asset, the schedule must list the following: 1) a description of the qualifying asset; 2) the year in which the asset was placed in service; 3) the federal basis (reduced by the bonus depreciation) used for purposes of calculating depreciation using the Modified Accelerated Cost Recovery System (MACRS); 4) the Connecticut basis used for purposes of calculating MACRS depreciation (basis not reduced by I.R.C. §168(k) amount); 5) the recovery period and convention; 6) the depreciation claimed for federal tax purposes for the income year; **and** 7) the depreciation allowed for Connecticut corporation business tax purposes for the income year.

**What if the Corporation is About to File its 2001 Form CT-1120 and Bonus Depreciation Was Claimed on its 2001 Federal Form 1120, U.S. Corporation Income Tax Return?** The 2001 **Form CT-1120** does not have a specific line to add the bonus depreciation to federal net income. Thus, the corporation must:

- Adjust the amount of federal taxable income (loss) before net operating loss and special deductions that is reported on **Form CT-1120**, Line 1, to include the special 30% bonus depreciation that was claimed on the federal return;
- Subtract the difference between the MACRS depreciation calculated as a result of the bonus depreciation and the MACRS depreciation that is allowed for purposes of the Connecticut corporation business tax on **Form CT-1120**, Line 9. Write the words “bonus depreciation” on **Form CT-1120**, Line 9; and
- Attach a copy of federal Form 4562 and a detailed schedule of those assets for which the I.R.C. §168(k) bonus depreciation was claimed. For each asset, the schedule must list the following: 1) a description of the qualifying asset; 2) the year in which the asset was placed in service; 3) the federal basis (reduced by the bonus depreciation) used for purposes of calculating depreciation using the Modified Accelerated Cost Recovery System (MACRS); 4) the Connecticut basis used for purposes of calculating MACRS depreciation (basis not reduced by I.R.C. §168(k) amount); 5) the recovery period and convention; 6) the depreciation claimed for federal tax purposes for the income year; and 7) the depreciation allowed for Connecticut corporation business tax purposes for the income year.

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**Will the 2002 Form CT-1120 Be Revised to Reflect the Modifications for Purposes of Calculating the Corporation Business Tax?** Yes. The 2002 **Form CT-1120** will contain the appropriate lines to make the necessary addition and subtraction modifications. In addition, corporations will have to complete a new schedule, *Schedule J*, on **Form CT-1120 ATT, Corporation Business Tax Return Attachment**, to account for the difference between the federal and state depreciation amounts.

**Will the Corporation Be Subject to Interest and Penalties as a Result of This Legislation?**

Yes. However, 2002 Conn. Pub. Acts 4, §§2 and 4 (May 9 Spec. Sess.) provides some relief to corporations. 2002 Conn. Pub. Acts 4, §2 provides that no addition to tax for the underpayment of estimated tax shall be made to the extent that the underpayment was created or increased by any provision of 2002 Conn. Pub. Acts 1 (May 9 Spec. Sess.) and to the extent any estimated tax payment was required to be made on or before July 15, 2002. In addition, 2002 Conn. Pub. Acts 4, §4 (May 9 Spec. Sess.) provides that Conn. Gen. Stat. §§12-225, 12-226, and 12-229 relating to the imposition of any penalty or the accrual of any interest in the case of any underpayment of tax by any company shall not apply to the extent the underpayment was created or increased by any provision of 2002 Conn. Pub. Acts 1 (May 9 Spec. Sess.), and to the extent the payment was required to be made on or before August 1, 2002.

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**Effect of This Document:** A Special Notice is a document that announces a new policy or practice in response to changes in State or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by DRS and may be referred to for general guidance by taxpayers or tax practitioners.

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**For Further Information:** Please call DRS during business hours, 8:00 a.m. to 5:00 p.m., Monday through Friday:

- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

**TTY, TDD, and Text Telephone users only** may transmit inquiries 24 hours a day by calling 860-297-4911.

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**Forms and Publications:** Forms and publications are available all day, seven days a week:

- **Internet:** Preview and download forms and publications from the DRS Web site: [www.drs.state.ct.us](http://www.drs.state.ct.us)

- **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu.
- **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.

**Paperless Filing Methods (fast, easy, free, and confidential):**

- **For business returns:** Use *Fast-File* to electronically file sales and use taxes, business use tax, room occupancy tax, or withholding tax returns over the internet or telephone. Visit the DRS Web site at: [www.drs.state.ct.us](http://www.drs.state.ct.us) and click on *Business Taxes Fast File Program*.
- **For resident income tax returns:** Use *WebFile* to file personal income tax returns over the Internet. Visit the DRS Web site at: [www.drs.state.ct.us](http://www.drs.state.ct.us) and click on *Income Tax Web Filing*.

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